

MTD – getting the basics right (Lecture B1094 - 13.41 minutes)

Which businesses will need to adopt MTD?

MTD will apply to all VAT registered business that trade over the registration threshold on 1 April 2019 or which exceed the threshold on any rolling 12-month basis thereafter. If the taxable sales of a business are always less than the registration threshold, it will have no need to worry about MTD. This means that all VAT returns for businesses affected by MTD will have to be submitted via compatible software which uses an API (Application Programming Interface) to transmit data to HMRC.

Planning point: A business that is voluntarily registered for VAT can still join MTD if it wishes.

Opportunity to keep out of MTD: Only taxable sales are included in the threshold, so any income that is outside the scope of VAT or exempt from VAT is excluded from the calculations. For example, most B2B services supplied to customers outside the UK are outside the scope of VAT (place of supply is the customer's country) so these sales are excluded.

Warning: Once a business exceeds the registration threshold in any rolling 12-month period, it must adopt digital record keeping, and cannot withdraw if turnover falls below the threshold in the future. So once you are in, you must stay in.

Confusion with HMRC Public Notice 700/22:

HMRC recently published VAT Notice 700/22 headed Making Tax Digital for VAT, and also the stakeholder communications pack that is mentioned in my article. There is one sentence in para 2.1 of the Notice that is misleading, namely the comment that: "Only businesses with taxable turnover that has never exceeded the VAT registration threshold (currently £85,000) will be exempt from Making Tax Digital." This is suggesting that if a business used to achieve annual taxable sales of, say, £110,000 but is now down to £60,000 each year (and is still VAT registered), then it must join the MTD bandwagon in April 2019 because it has exceeded the threshold in the past.

However, the good news is that the stakeholder communications pack issued by HMRC offers clarity at para 12.15 with the question: What if my taxable VAT turnover is below the threshold? The answer confirms as follows: "Businesses already have to check their turnover for the last 12 months at the end of each month to see if it exceeds the VAT threshold. If it does then MTD applies from the first day of the following month." So as long as a business has annual taxable sales of less than £85,000 for the 12-month period ending 31 March 2019 and every rolling 12-month period thereafter, it has no MTD worries.

What is the actual start date for MTD?

VAT periods beginning on or after 1 April 2019.

Example 1 – a business completing VAT returns to the end of February, May, August and November will adopt digital record keeping from 1 June 2019.

Will a business have to adopt MTD if it has never used a computer to keep its records?

This question is best answered with an example that relates to an exact query I dealt with, and I also share the response of HMRC's press office to the question.

Example 2 – manual records

Eric is VAT registered as a sole trader and repairs and services vehicles. He has been in business since 1983 and is 58 years of age. He has always used manual accounting records that have been immaculately kept and he does his own VAT returns. He delivers the records each year to his accountant who completes his self-assessment tax return. His accountant has never discovered any VAT errors in his record keeping.

For the first time in 35 years, Eric must change from manual bookkeeping to digital recordkeeping. He cannot afford to pay his accountant to do this so will have to learn the system and do it himself. This is a major challenge.

HMRC reply:

“We recognise that this will be a significant change for some customers, particularly if they've been keeping records the same way for many years. Keeping records digitally and providing updates direct from those records will result in more timely and accurate record-keeping and help prevent errors that can happen when businesses are doing manual calculations or transcribing information from one format into another.”

Opportunity: HMRC has published a list of those developers with products at the prototype stage on GOV.UK. The expectation is that the market will offer products that customers will find easy to use and time-saving, with some software available at low cost to businesses (eg as low as £10 a month depending on business functionality).

What about spreadsheets?

I will consider spreadsheet issues in my next session on MTD headed “MTD challenges”

What records need to be kept in a digital format?

Permanent data – eg name, address, VAT number and schemes used;

VAT account – figures and calculations making up the figures in the nine boxes of the VAT return; links between different parts of accounting system (including journals)

Transaction data - recording of all sales and purchase invoices – for sales invoices, the data to be recorded includes the net amount; the VAT rate for each amount on the invoice; date (time of supply). Purchase invoices must show the VAT rate, net amount, time of supply and the amount of input tax being claimed.

There is no need to raise sales invoices in a digital format.

Retailers – must record daily gross takings – this has always been a legal requirement. There is no need to digitally record transactions that make up the daily figure.

Key point – each invoice received and issued must be processed and not bundled together.

Example – a garage doing an MoT test charge on the same invoice as his services will need to split the invoice when it is entered into the records.

Will there be any exemptions for MTD record keeping?

A business will not have to follow the MTD rules where HMRC is satisfied that:

- the business is run entirely by practicing members of a religious society whose beliefs are incompatible with the requirements of the regulations (for example, those religious beliefs prevent them from using computers);
- it is not reasonably practicable for the business to use digital tools to keep its business records or submit returns, for reasons of age, disability, remoteness of location or for any other reason;
- the business is subject to an insolvency procedure

Note – there are no exemptions for charities or non-profit making bodies – they must follow the same rules as a commercial business.

If any of the above situations are relevant, then the business owner (or agent) will need to contact HMRC's VAT helpline to discuss alternative arrangements.

Where can I find out more information about MTD?

VAT Notice 700/22 was published on 13 July 2018 and gives a lot of guidance and detail about the new regulations. It is a must-read for advisers and clients affected by MTD.

What about penalties for non-compliance?

HMRC will not generally impose penalties for non-compliance in the first 12 months of MTD.

Contributed by Neil Warren